

## >LEE DAVIS

Co-founder and chief executive, NESsT

### How did you originally get involved in venture philanthropy?

Prior to founding NESsT with Nicole Etchart 12 years ago, I worked in the regional environmental sector in Central and Eastern Europe, supporting NGOs and charities in the region. That is when my love of the region - and frustration with the charity and venture philanthropy model - began.

You see organisations that are starved of money and have to go out with a begging bowl every year. That's what led to us creating NESsT, taking best practices from the entrepreneurship and investment world, and infusing them into the charitable sector.

### What is your mission as an organisation?

For us, the idea of a social enterprise is something that includes a revenue-generating activity to support a charity's programme, at the same time as furthering the social impact. We have a lot of businesses that are being used to create employment for marginalised people, whether they be people with physical disabilities, disadvantaged youth, or minority groups.

### How badly has the economic downturn impacted the organisation?

It could have been worse. We were lucky with the timing of our fundraising campaign, because we closed at the end of last year. If we had tried to launch six months ago it would have been pretty grim. That said, with the new campaign, all our supporters were willing to come back, many at a higher level.

### But charities themselves have been suffering a lot, haven't they?

Yes - we are seeing real problems. But from our point of view, the crisis has just confirmed what we've been saying all along - that it's dangerous to be dependent on charity alone. I hate to say we've benefited from the crisis, but it has made our mission even more relevant. It's confirmed that charities need to diversify their funding in order to survive.

### How do you go about fundraising?

A lot of our support comes from the private equity industry through our Private Equity Shares programme. This was launched in Central and Eastern Europe last year and now has 30 supporting firms. The campaign was a success because the private equity community likes the idea of doing their philanthropy in a way that mirrors their investment approach. We have a methodology that resonates with them - we

talk about pipeline, due diligence and exits - and they like that we are active and involved in the portfolio. It's not just a cheque-writing experience.

We also practice what we preach. We generate 22 per cent of our budget through our own consulting enterprise, selling our services to international organisations and foundations. This pays our overheads, meaning the money we raise can go straight to supporting businesses.

### Private equity professionals are well known for their exacting standards - are they a hard bunch to please?

Yes they are. In the early days they were rather intimidating, but because our model is similar we can answer their questions. We can talk to them about the portfolio in financial terms as well as in terms of social returns.

They have a very different perspective to a traditional charitable donor as they are much more engaged in the portfolio and see problems as they happen - we're not just reporting back at the end of the year. But the hard part is that, as similar as our models are, there is a certain point where they are very different. The type of returns we offer - a social return - are very different from IRRs.

### How do you go about selecting the charities that you back?

We have national social enterprise competitions, in which charities come and present a concept. Those that are viable go to a second stage, where we provide a little funding to enable them to take the idea to the next level, and it is at this stage that the private equity guys get involved. Following this, each applicant has to pitch their ideas to us, our investment committee and private equity professionals. Around 20 per cent make it to this stage, and from those, if we have the funding available, we will take most into our

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portfolio. Last year we took on nine new enterprises in Central and Eastern Europe, and we hope to add ten or 12 in the coming year.

### Private equity firms frequently cite "strong management" as their primary investment criterion. Is this the same for NESsT?

The leadership team is critical - if they don't have that, then as brilliant as their idea may be, we won't back them. The enterprise must also have a high social impact in their area, and we want them to provide a model that can be replicated or scaled in some way. A great example recently was in rural Slovakia, where one of our enterprises began creating employment in a deprived area. The Slovak prime minister visited and the enterprise is now being used as a model for how you regenerate rural areas. Finally, our enterprises need to be sustainable. They need to bring in a percentage of self-financed income.

### How do management react to the outside involvement?

One of the great things about the NESsT model is that it changes the whole power dynamic. Typically, the relationship between donor and grantee is quite paternalistic. I give you cash, I call the shots and you have to keep me happy - it's a dance of deceit that happens every time you need money. In this model there's a shared risk; charities want money, but also expertise and advice. It makes the conversation more honest.

### What does the future hold for NESsT? Do you plan to broaden your horizons beyond Central and Eastern Europe and Latin America?

Our board has been firm about us having a clear expansion strategy - they don't want us to spread our resources too thinly. We're growing organically and have taken on some big new markets recently. Two years ago we added Romania, which is now our biggest programme, and we have also recently added Brazil and Argentina. The main thing now will be consolidating and growing in our existing markets, but there is also a lot of clamour for us to move into Poland. One of next year's plans is to revisit the idea of launching a fund specifically for that country.

LEE DAVIS was talking to SAMUEL BARTON, managing editor of *Real Deals*.

